

MBONAMBI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | Note | 2009 R | 2008 R |
|---|------------------|--------------------------|--------------------------|
| 13 PROPERTY RATES | | | |
| Actual | | | |
| Residential | | 2,471,798 | 3,379,457 |
| Commercial | | - | - |
| Light Industries | | - | - |
| Heavy Industries | | - | - |
| State | | - | - |
| Total property rates | | <u>2,471,798</u> | <u>3,379,457</u> |
| Property rates - penalties imposed and collection charges | | - | - |
| Total | | <u><u>2,471,798</u></u> | <u><u>3,379,457</u></u> |
| 14 SERVICE CHARGES | | | |
| Refuse removal | | 184,554 | 167,420 |
| Total Service Charges | | <u><u>184,554</u></u> | <u><u>167,420</u></u> |
| 15 RENTAL OF FACILITIES AND EQUIPMENT | | | |
| Rental of facilities | | 95,787 | 70,027 |
| Other rentals - Staff | | 23,227 | - |
| Total rentals | | <u><u>119,015</u></u> | <u><u>70,027</u></u> |
| 16 INTEREST EARNED - EXTERNAL INVESTMENTS | | | |
| Main Bank Account | | 60,014 | 40,281 |
| Total interest | | <u><u>60,014</u></u> | <u><u>40,281</u></u> |
| 17 GOVERNMENT GRANTS AND SUBSIDIES | | | |
| Equitable share | | 18,972,142 | 31,407,171 |
| MIG Grant | | 6,759,000 | - |
| Other Government Grants and Subsidies | | 1,235,000 | - |
| Total Government Grant and Subsidies | | <u><u>26,966,142</u></u> | <u><u>31,407,171</u></u> |
| MIG Grant | | | |
| Balance unspent at beginning of year | | - | - |
| Current year receipts | | 6,759,000 | - |
| Conditions met - transferred to revenue | | (6,759,000) | - |
| | Notes 15-61/A124 | <u><u>-</u></u> | <u><u>-</u></u> |
| 18 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS | | | |
| Other income | | 1,879,132 | 1,337,156 |
| Recovery of unauthorised, irregular, fruitless and wasteful expenditure (Note 50) | Notes 15-61/A684 | - | - |
| Total Other Income | | <u><u>1,879,132</u></u> | <u><u>1,337,156</u></u> |
| Public contributions and donations | | 1,879,132 | 1,337,156 |
| Public contributions - Conditional | | - | - |
| Public contributions - Unconditional | | - | - |
| Donations | | - | - |
| Total public contributions and donations | | <u><u>1,879,132</u></u> | <u><u>1,337,156</u></u> |

MBONAMBI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | Note | 2009 R | 2008 R |
|---|------|------------------|-------------------|
| 19 EMPLOYEE RELATED COSTS | | | |
| Employee related costs - Salaries and Wages | | 5,118,050 | 11,625,835 |
| Employee related costs - Contributions for UIF, pensions and medical aids | | 1,539,738 | - |
| Travel, motor car, accommodation, subsistence and other allowances | | 263,227 | - |
| Housing benefits | | 65,893 | - |
| Overtime and Night Allowances | | 654,640 | - |
| Performance and other bonuses | | 607,789 | - |
| Other employee related costs | | 692,600 | - |
| Total Employee Related Costs | | 8,941,937 | 11,625,835 |

There were no advances / loans to employees.

Remuneration of the Municipal Manager

| | | |
|----------------------|----------------|----------------|
| Annual Remuneration | 542,445 | 616,664 |
| Travelling Allowance | 232,476 | - |
| Contributions to UIF | 1,497 | - |
| Total | 776,419 | 616,664 |

Remuneration of the Chief Finance Officer

| | | |
|----------------------|----------------|----------------|
| Annual Remuneration | 403,099 | 465,200 |
| Travelling Allowance | 172,757 | - |
| Contributions to UIF | 1,497 | - |
| Total | 577,354 | 465,200 |

Remuneration of Individual Executive Directors - 2009

| | Corporate Services | Technical Services |
|----------------------|--------------------|--------------------|
| Annual Remuneration | 460,685 | 460,685 |
| Travelling Allowance | 115,171 | 115,171 |
| Contributions to UIF | 1,497 | 1,497 |
| Total | 577,354 | 577,354 |

Remuneration of Individual Executive Directors - 2008

| | Corporate Services | Technical Services |
|---------------------|--------------------|--------------------|
| Annual Remuneration | 465,200 | 465,200 |
| Total | 465,200 | 465,200 |

20 REMUNERATION OF COUNCILLORS

| | | |
|--|------------------|------------------|
| Mayor | 266,791 | 193,759 |
| Deputy Mayor | 214,160 | 162,153 |
| Speaker | 218,154 | 162,153 |
| Executive Committee Members | 598,836 | 443,749 |
| Councillors' allowances | 2,783,287 | 2,032,810 |
| Total Councillors' Remuneration | 4,081,229 | 2,994,624 |

In-kind Benefits

The Mayor, is provided with an office and secretarial support at the cost of the Council. The Mayor has a full-time driver and bodyguard provided by the Council. The Mayor, is provided with an office and secretarial support at the cost of the Council. The Mayor has a full-time driver and bodyguard provided by the Council.

21 DEPRECIATION AND AMORTISATION EXPENSE

| | | |
|--|------------------|----------|
| Property, plant and equipment | 1,701,241 | - |
| Intangible assets | - | - |
| Investment property carried at cost | - | - |
| Biological assets carried at cost | - | - |
| Total Depreciation and Amortisation | 1,701,241 | - |

MBONAMBI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | Note | 2009 R | 2008 R |
|--|------|-------------------|-------------------|
| 22 FINANCE COSTS | | | |
| Bank overdrafts and Fruitless expenditure | | 619,541 | - |
| Total Finance Costs | | 619,541 | - |
| 23 CONTRACTED SERVICES | | | |
| Contracted services for: | | | |
| Security | | | |
| Cleaning | | | |
| | | 3,482,436 | - |
| 24 GENERAL EXPENSES | | | |
| Included in general expenses are the following:- | | | |
| Advertising | | 160,011 | - |
| Admin fees | | - | - |
| Audit fees | | 897,320 | - |
| Bank charges | | 67,218 | - |
| Bursaries | | 205,918 | - |
| Cleaning | | 17,654 | - |
| Conferences and delegations | | - | - |
| Connection charges | | - | - |
| Consulting fees | | - | - |
| Consumables | | - | - |
| Debt collection commission | | - | - |
| Departmental consumption | | - | - |
| Entertainment | | 4,336 | - |
| Financial management grant | | - | - |
| Fuel and oil | | 302,796 | - |
| Insurance | | 430,096 | - |
| Legal expenses | | 222,315 | - |
| Levies paid | | 12,569 | - |
| Licence fees - vehicles | | 82,950 | - |
| Licence fees - computers | | - | - |
| Membership fees | | - | - |
| Parking | | - | - |
| Postage | | 17,683 | - |
| Printing and stationery | | 556,355 | - |
| Professional fees | | - | - |
| Rental of buildings | | 619,660 | - |
| Rental of office equipment | | 101,051 | - |
| Rental of computer equipment | | - | - |
| Other rentals | | - | - |
| Security costs | | - | - |
| Sewerage treatment costs | | - | - |
| Skills development levies | | - | - |
| Stocks and material | | 43,279 | - |
| Subscription & publication | | - | - |
| Telephone cost | | 577,124 | - |
| Training | | 133,100 | - |
| Transport claims | | - | - |
| Travel and subsistence | | 472,508 | - |
| Uniforms & overalls | | 41,822 | - |
| Valuation costs | | - | - |
| Other | | 5,926,967 | 32,390,921 |
| | | 10,892,732 | 32,390,921 |

MBONAMBI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| Note | 2009 R | 2008 R |
|---|--------------------------|---------------------------|
| 25 GAIN / (LOSS) ON SALE OF ASSETS | | |
| Property, plant and equipment | - | - |
| Total Gain / (Loss) on Sale of Assets | <u>-</u> | <u>-</u> |
| 26 CASH GENERATED BY OPERATIONS | | |
| Surplus/(deficit) for the year | 1,201,077 | (5,562,116) |
| Adjustment for:- | | |
| Depreciation and amortisation | 1,701,241 | - |
| (Gain) / loss on sale of assets | - | - |
| Contribution to provisions - non-current | | |
| Contribution to provisions - current | 357,126 | |
| Finance costs | - | - |
| Other non-cash item | | |
| Operating surplus before working capital changes: | <u>3,259,444</u> | <u>(5,562,116)</u> |
| (Increase)/decrease in inventories | | |
| (Increase)/decrease in trade receivables | 1,335,402 | |
| (Increase)/decrease in other receivables | 2,221,497 | |
| (Increase)/decrease in VAT receivable | 409,703 | |
| Increase/(decrease) in conditional grants and receipts | (11,260,125) | |
| Increase/(decrease) in trade payables | 23,621,806 | |
| Increase/(decrease) in consumer deposits | (6,200) | |
| Increase/(decrease) in Unspent Conditional Grants | (6,632,195) | |
| Cash generated by/(utilised in) operations | <u><u>9,689,888</u></u> | <u><u>(5,562,116)</u></u> |
| 27 CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents included in the cash flow statement comprise the following: | | |
| Bank balances and cash | 13,994,017 | 5,639,637 |
| Bank overdrafts | - | - |
| Net cash and cash equivalents (net of bank overdrafts) | <u><u>13,994,017</u></u> | <u><u>5,639,637</u></u> |

MBONAMBI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | Note | 2009 R | 2008 R |
|---|------|------------|-----------|
| 28 CHANGE IN ACCOUNTING POLICY | | | |
| The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of new accounting policies and changes to existing policies: | | | |
| 28.1 Statutory Funds | | | |
| Balance previously reported: - | | | |
| Capital Development Fund | | 3,434,787 | |
| Total | | 3,434,787 | - |
| Implementation of GRAP | | | |
| Transferred to Accumulated Surplus/(Deficit) | | 3,434,787 | |
| 28.2 Property, plant and equipment | | | |
| Balance previously reported | | | |
| Implementation of GRAP | | 26,181,164 | |
| Total | | 26,181,164 | - |
| 28.3 Accumulated Depreciation | | | |
| Balance previously reported - | | | |
| Implementation of GRAP | | | |
| Backlog depreciation | | 6,564,733 | |
| Total (debited to Accumulated Surplus/(Deficit)) (see 47.7 below) | | 6,564,733 | |
| 28.4 Accumulated Surplus/(Deficit) | | | |
| Implementation of GRAP | | | |
| Transferred from statutory funds | | 3,434,787 | |
| Fair value of Property, Plant and Equipment. | | 26,181,164 | |
| Backlog depreciation | | | |
| Total | | 29,615,951 | - |
| 29 CORRECTION OF ERROR | | | |
| During the year ended 30 June 2009, income to the value of R241 110.60 was recognised in the current year as well as expenses to the value of R1 882 687.76 relating to the prior year were recognised in the current year. | | | |
| The comparative amount has been restated as follows: | | | |
| Expense | | 1,882,688 | |
| Income | | (241,111) | |
| Net effect on surplus/(deficit) for the prior year | | 1,641,577 | - |
| Net effect on Accumulated surplus opening balance | | 1,641,577 | |

MBONAMBI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2009

| | Note | 2009 R | 2008 R |
|--|------|-------------------|-----------|
| 30 Unauthorised expenditure | | | |
| Reconciliation of unauthorised expenditure | | | |
| Opening balance | | | |
| Unauthorised expenditure current year | | 12,542,467 | |
| Approved by Council or condoned | | | |
| Transfer to receivables for recovery | | | |
| Unauthorised expenditure awaiting authorisation | | <u>12,542,467</u> | <u>-</u> |
| 30.1 Fruitless and wasteful expenditure | | | |
| Reconciliation of fruitless and wasteful expenditure | | | |
| Opening balance - | | - | |
| Fruitless and wasteful expenditure current year | | 610,115 | |
| Condoned or written off by Council | | - | |
| Fruitless and wasteful expenditure awaiting condonement | | <u>610,115</u> | <u>-</u> |
| Incident PAYE,SDL & UIF was not paid over to Sars in the 2009 financial year | | | |
| 30.2 PAYE and UIF & SDL | | | |
| Current year payroll deductions and Council Contributions | | 2,868,868 | |
| Amount paid - current year | | - | |
| Balance unpaid (included in payables) | | <u>2,868,868</u> | <u>-</u> |
| The balance represents PAYE and UIF deducted from the 01 July 2009 payroll. These amounts have not yet been paid. | | | |
| 30.3 Pension and Medical Aid Deductions | | | |
| Current year payroll deductions and Council Contributions | | 2,349,427 | |
| Amount paid - current year | | (2,349,427) | |
| Balance unpaid (included in payables) | | <u>-</u> | <u>-</u> |

MBONAMBI MUNICIPALITY
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2009

| | Cost / Revaluation | | | | Accumulated Depreciation | | | | | Transfers | Other movements | Carrying Value |
|-------------------------------|--------------------|-----------|-----------|--------------------|--------------------------|-----------------|--------------|-----------|---|-----------------|-----------------|----------------|
| | Opening Balance | Additions | Disposals | Under Construction | Closing Balance | Opening Balance | Depreciation | Disposals | Impairment loss/Reversal of impairment loss | Closing Balance | | |
| | R | R | R | R | R | R | R | R | R | R | R | R |
| Land | | | | | | | | | | | | |
| Land | 132,152 | - | - | - | 132,152 | - | - | - | - | - | - | 132,152 |
| Landfill Sites | 601,003 | - | - | - | 601,003 | (195,664) | (40,067) | - | - | (235,731) | - | 365,272 |
| Quarries | - | - | - | - | - | - | - | - | - | - | - | - |
| | 733,155 | - | - | - | 733,155 | (195,664) | (40,067) | - | - | (235,731) | - | 497,424 |
| Buildings | | | | | | | | | | | | |
| - | - | - | - | - | - | - | - | - | - | - | - | - |
| Infrastructure | | | | | | | | | | | | |
| Drains | - | - | - | - | - | - | - | - | - | - | - | - |
| Roads | - | - | - | - | - | - | - | - | - | - | - | - |
| Sewerage Mains & Purification | 8,871,077 | - | - | - | 8,871,077 | (1,237,235) | (302,506) | - | - | (1,539,741) | - | 7,331,336 |
| Electricity Mains | 122,648 | - | - | - | 122,648 | (4,546) | (4,088) | - | - | (8,634) | - | 114,014 |
| Electricity Peak Load Equip | - | - | - | - | - | - | - | - | - | - | - | - |
| Water Mains & Purification | - | - | - | - | - | - | - | - | - | - | - | - |
| Reservoirs – Water | - | - | - | - | - | - | - | - | - | - | - | - |
| Water Meters | - | - | - | - | - | - | - | - | - | - | - | - |
| Storm Water | 342,987 | - | - | - | 342,987 | (66,035) | (17,149) | - | - | (83,184) | - | 259,802 |
| | 9,336,712 | - | - | - | 9,336,712 | (1,307,816) | (323,744) | - | - | (1,631,560) | - | 7,705,152 |
| Community Assets | | | | | | | | | | | | |
| Parks & Gardens | - | - | - | - | - | - | - | - | - | - | - | - |
| Libraries | 548,125 | - | - | - | 548,125 | (92,313) | (18,271) | - | - | (110,584) | - | 437,541 |
| Recreation Grounds | 1,101,628 | - | - | - | 1,101,628 | (66,540) | (36,721) | - | - | (103,260) | - | 998,367 |
| Civic Buildings | 1,532,613 | - | - | - | 1,532,613 | (297,279) | (51,087) | - | - | (348,366) | - | 1,184,247 |
| Stadiums | 991,471 | - | - | - | 991,471 | (37,154) | (35,662) | - | - | (72,816) | - | 918,656 |
| Halls | 4,768,243 | - | - | - | 4,768,243 | (369,809) | (157,973) | - | - | (527,783) | - | 4,240,460 |
| Theatre | - | - | - | - | - | - | - | - | - | - | - | - |
| Swimming Pools | - | - | - | - | - | - | - | - | - | - | - | - |
| Cemeteries | - | - | - | - | - | - | - | - | - | - | - | - |
| | 8,942,079 | - | - | - | 8,942,079 | (863,095) | (299,714) | - | - | (1,162,809) | - | 7,779,271 |
| Heritage Assets | | | | | | | | | | | | |
| Historical Buildings | - | - | - | - | - | - | - | - | - | - | - | - |
| Paintings & Artifacts | - | - | - | - | - | - | - | - | - | - | - | - |
| | 19,011,946 | - | - | - | 19,011,946 | (2,366,574) | (663,525) | - | - | (3,030,099) | - | 15,981,847 |
| Total carried forward | | | | | | | | | | | | |

MBONAMBI MUNICIPALITY
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2009

| as at 30 June 2009 | | | | | | | | | | | | | |
|--|--------------------|-----------|-----------|--------------------|--------------------------|-----------------|--------------|-----------|---|-----------------|-----------|-----------------|----------------|
| | Cost / Revaluation | | | | Accumulated Depreciation | | | | | | | Other movements | Carrying Value |
| | Opening Balance | Additions | Disposals | Under Construction | Closing Balance | Opening Balance | Depreciation | Disposals | Impairment loss/Reversal of impairment loss | Closing Balance | Transfers | | |
| | R | R | R | R | R | R | R | R | R | R | R | R | |
| Total brought forward | 19,011,946 | - | - | - | 19,011,946 | (2,366,574) | (663,525) | - | - | (3,030,099) | - | 15,981,847 | |
| Other Assets | | | | | | | | | | | | | |
| Office Equipment | 333,191 | 13,243 | - | - | 346,434 | (106,797) | (43,366) | - | - | (150,163) | - | 196,271 | |
| Furniture & Fittings | 925,011 | 207,448 | - | - | 1,132,459 | (266,715) | (94,109) | - | - | (360,824) | - | 771,634 | |
| Bins and Containers | 38,169 | - | - | - | 38,169 | (30,253) | (4,924) | - | - | (35,177) | - | 2,992 | |
| Emergency Equipment | 6,960 | 600 | - | - | 7,560 | (2,899) | (696) | - | - | (3,595) | - | 3,965 | |
| Motor vehicles | 4,072,180 | - | (241,795) | - | 3,830,385 | (1,299,491) | (620,116) | 193,469 | - | (1,726,138) | - | 2,104,247 | |
| Fire engines | - | - | - | - | - | - | - | - | - | - | - | - | |
| Refuse tankers | - | - | - | - | - | - | - | - | - | - | - | - | |
| Computer Equipment | 688,808 | 45,608 | - | - | 734,416 | (473,617) | (145,873) | - | - | (619,490) | - | 114,925 | |
| Computer Software (part of computer equipment) | 191,706 | - | - | - | 191,706 | (154,740) | (31,621) | - | - | (186,361) | - | 5,345 | |
| Other Assets | 909,314 | 13,512 | - | - | 922,826 | (162,407) | (97,009) | - | - | (259,416) | - | 663,410 | |
| | 7,165,339 | 280,411 | (241,795) | - | 7,203,955 | (2,496,919) | (1,037,716) | 193,469 | - | (3,341,166) | - | 3,862,789 | |
| Finance Lease Assets | | | | | | | | | | | | | |
| Office Equipment | 4,999 | - | - | - | 4,999 | (4,999) | - | - | - | (4,999) | - | - | |
| Other Assets | - | 14,080 | - | - | 14,080 | - | - | - | - | - | - | 14,080 | |
| | 4,999 | 14,080 | - | - | 19,079 | (4,999) | - | - | - | (4,999) | - | 14,080 | |
| total | 26,182,284 | 294,491 | (241,795) | - | 26,234,980 | (4,868,493) | (1,701,241) | 193,469 | - | (6,376,264) | - | 19,858,716 | |

MBONAMBI MUNICIPALITY
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2008

| | Cost / Revaluation | | | | Accumulated Depreciation | | | | Transfers | Other movements | Carrying Value |
|-------------------------------|--------------------|-----------|-----------|--------------------|--------------------------|-----------------|--------------|-----------|---|-----------------|----------------|
| | Opening Balance | Additions | Disposals | Under Construction | Closing Balance | Opening Balance | Depreciation | Disposals | Impairment loss/Reversal of impairment loss | Closing Balance | R |
| Land | R | R | R | R | R | R | R | R | R | R | R |
| Land | 132,152 | - | - | - | 132,152 | - | - | - | - | - | 132,152 |
| Landfill Sites | 601,003 | - | - | - | 601,003 | - | - | - | - | - | 601,003 |
| Quarries | - | - | - | - | - | - | - | - | - | - | - |
| | 733,155 | - | - | - | 733,155 | - | - | - | - | - | 733,155 |
| Buildings | - | - | - | - | - | - | - | - | - | - | - |
| Infrastructure | - | - | - | - | - | - | - | - | - | - | - |
| Drains | - | - | - | - | - | - | - | - | - | - | - |
| Roads | - | - | - | - | - | - | - | - | - | - | - |
| Sewerage Mains & Purification | - | - | - | - | - | - | - | - | - | - | - |
| Electricity Mains | - | - | - | - | - | - | - | - | - | - | - |
| Electricity Peak Load Equip | - | - | - | - | - | - | - | - | - | - | - |
| Water Mains & Purification | - | - | - | - | - | - | - | - | - | - | - |
| Reservoirs – Water | - | - | - | - | - | - | - | - | - | - | - |
| Water Meters | - | - | - | - | - | - | - | - | - | - | - |
| Storm Water | - | - | - | - | - | - | - | - | - | - | - |
| | 8,871,077 | - | - | - | 8,871,077 | - | - | - | - | - | 8,871,077 |
| Community Assets | - | - | - | - | - | - | - | - | - | - | - |
| Parks & Gardens | - | - | - | - | - | - | - | - | - | - | - |
| Libraries | 548,125 | - | - | - | 548,125 | - | - | - | - | - | 548,125 |
| Recreation Grounds | 1,101,628 | - | - | - | 1,101,628 | - | - | - | - | - | 1,101,628 |
| Civic Buildings | 1,532,613 | - | - | - | 1,532,613 | - | - | - | - | - | 1,532,613 |
| Stadiums | 991,471 | - | - | - | 991,471 | - | - | - | - | - | 991,471 |
| Halls | 4,768,243 | - | - | - | 4,768,243 | - | - | - | - | - | 4,768,243 |
| Theatre | - | - | - | - | - | - | - | - | - | - | - |
| Swimming Pools | - | - | - | - | - | - | - | - | - | - | - |
| Cemeteries | - | - | - | - | - | - | - | - | - | - | - |
| | 8,942,079 | - | - | - | 8,942,079 | - | - | - | - | - | 8,942,079 |
| Heritage Assets | - | - | - | - | - | - | - | - | - | - | - |
| Historical Buildings | - | - | - | - | - | - | - | - | - | - | - |
| Paintings & Artifacts | - | - | - | - | - | - | - | - | - | - | - |
| | 18,546,312 | - | - | - | 18,546,312 | - | - | - | - | - | 18,546,312 |
| Total carried forward | | | | | | | | | | | |

MBONAMBI MUNICIPALITY
APPENDIX B
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2008

| | Cost / Revaluation | | | | Accumulated Depreciation | | | | | Transfers | Other movements | Carrying Value |
|--|--------------------|-----------|-----------|--------------------|--------------------------|-----------------|--------------|-----------|---|-----------------|-----------------|-------------------|
| | Opening Balance | Additions | Disposals | Under Construction | Closing Balance | Opening Balance | Depreciation | Disposals | Impairment loss/Reversal of impairment loss | Closing Balance | | |
| | R | R | R | R | R | R | R | R | R | R | R | R |
| Total brought forward | 18,546,312 | - | - | - | 18,546,312 | - | - | - | - | - | - | 18,546,312 |
| Other Assets | | | | | | | | | | | | |
| Office Equipment | 333,191 | - | - | - | 333,191 | - | - | - | - | - | - | 333,191 |
| Furniture & Fittings | 925,011 | - | - | - | 925,011 | - | - | - | - | - | - | 925,011 |
| Bins and Containers | 38,169 | - | - | - | 38,169 | - | - | - | - | - | - | 38,169 |
| Emergency Equipment | 6,960 | - | - | - | 6,960 | - | - | - | - | - | - | 6,960 |
| Motor vehicles | 4,072,180 | - | - | - | 4,072,180 | - | - | - | - | - | - | 4,072,180 |
| Fire engines | - | - | - | - | - | - | - | - | - | - | - | - |
| Refuse tankers | - | - | - | - | - | - | - | - | - | - | - | - |
| Computer Equipment | 688,808 | - | - | - | 688,808 | - | - | - | - | - | - | 688,808 |
| Computer Software (part of computer equipment) | 191,706 | - | - | - | 191,706 | - | - | - | - | - | - | 191,706 |
| Other Assets | 909,314 | - | - | - | 909,314 | - | - | - | - | - | - | 909,314 |
| | 7,165,339 | - | - | - | 7,165,339 | - | - | - | - | - | - | 7,165,339 |
| Finance Lease Assets | | | | | | | | | | | | |
| Office Equipment | 4,999 | - | - | - | 4,999 | - | - | - | - | - | - | 4,999 |
| Other Assets | - | - | - | - | - | - | - | - | - | - | - | - |
| | 4,999 | - | - | - | 4,999 | - | - | - | - | - | - | 4,999 |
| Total | 25,716,650 | - | - | - | 25,716,650 | - | - | - | - | - | - | 25,716,650 |

MBONAMBI MUNICIPALITY

APPENDIX C

SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

as at 30 June 2009

| | Cost / Revaluation | | | | Accumulated Depreciation | | | | Carrying value |
|-----------------------------|--------------------|-----------|--------------------|-----------|--------------------------|-----------------|-----------|-----------|----------------|
| | Opening Balance | Additions | Under Construction | Disposals | Closing Balance | Opening Balance | Additions | Disposals | |
| | R | R | R | R | R | R | R | R | R |
| Executive & Council | | | | | | | | | |
| Finance & Admin | | | | | | | | | |
| Planning & Development | | | | | | | | | |
| Health | | | | | | | | | |
| Community & Social Services | | | | | | | | | |
| Public Safety | | | | | | | | | |
| Sport & Recreation | | | | | | | | | |
| Environmental Protection | | | | | | | | | |
| Waste Management | | | | | | | | | |
| Road Transport | | | | | | | | | |
| Water | | | | | | | | | |
| Electricity | | | | | | | | | |
| Other | | | | | | | | | |
| Total | - | - | - | - | - | - | - | - | - |

| for the year ended 30 June 2009 | | | | | | | |
|---------------------------------|---------------------------|----------------------------|--------------------------------|----------------------|---------------------------|----------------------------|------|
| 2008 | | 2008 | | 2009 | | 2009 | 2009 |
| <u>Actual Income</u> | <u>Actual Expenditure</u> | <u>Surplus / (Deficit)</u> | | <u>Actual Income</u> | <u>Actual Expenditure</u> | <u>Surplus / (Deficit)</u> | |
| R | R | R | | R | R | R | |
| - | - | - | Executive & Council | | | | |
| - | - | - | Finance & Admin | | | | |
| - | - | - | Corporate Services | | | | |
| - | - | - | Planning & Development | | | | |
| 43,461,528 | 49,023,644 | (5,562,116) | Other | 35,308,037 | 34,106,960 | 1,201,077 | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| 43,461,528 | 49,023,644 | (5,562,116) | | 35,308,037 | 34,106,960 | 1,201,077 | |
| - | - | - | Less: Inter-Department Charges | - | - | - | |
| 43,461,528 | 49,023,644 | (5,562,116) | Total | 35,308,037 | 34,106,960 | 1,201,077 | |

FINANCIAL MANAGEMENT TURNAROUND STRATEGY



FINANCIAL MANAGEMENT TURNAROUND STRATEGY

"Towards becoming an Ideal Municipality"

FINANCIAL MANAGEMENT TURN AROUND STRATEGY

MFOLOZI MUNICIPALITY

EXECUTIVE SUMMARY

Key TAS Objectives

The main objectives of this strategy are;

- To put in place measures to improve the audit report back to an unqualified report by no later than the 2010/11 financial period,
- To put in place measures to improve the audit report to a completely clean bill of accounts by no later than the 2012/13 financial period,
- To put in place mechanisms to improve the financial position of the Municipality to a positive liquidity ratio by the end of the 2009/10 financial year,
- To put in place clear monitoring mechanisms for the short-term and to strengthen the legislative monitoring mechanisms in medium to long term.

The state of the audit reports and planed targets

The record of the Municipality regarding audit reports for the past five years is as follows;

| Financial Year | AFS Submission date | Nature of Audit Report | Reporting framework |
|----------------|---------------------|------------------------|---------------------|
| 2004/05 | 31 August 2005 | Unqualified | IMFO |
| 2005/06 | 31 August 2006 | Qualified | IMFO |
| 2006/07 | 31 August 2007 | Disclaimer | IMFO |
| 2007/08 | 31 August 2008 | Disclaimer | IMFO |
| 2008/09 | 31 August 2009 | Disclaimer | GRAP Transitional |

For the next five years the Municipality is aiming for nothing less than clean audit reports. However looking at the issues that have been with the Municipality of a considerable time more modest and realistic targets are as follows;

| Financial Year | Projected report outcome | Reporting framework |
|----------------|--|---------------------|
| 2009/10 | 50-70% reduction in audit queries | GRAP Transitional |
| 2010/11 | Unqualified audit report with emphasis of matter & other matters | GRAP Transitional |
| 2011/12 | Unqualified report and no emphasis of matter but with other matters | GRAP |
| 2012/13 | Clean Audit report with neither emphasis of matter nor compliance issues | GRAP |
| 2013/14 | Clean Audit report with neither emphasis of matter nor compliance issues | GRAP |

FINANCIAL MANAGEMENT TURN AROUND STRATEGY

MFOLOZI MUNICIPALITY

High Level diagnosis of Problems

The most blaring cause of the problems the Municipality finds itself in is the poor management of both the financial statements preparation and the management of the audit itself. The following were on the audit report;

- i) Management philosophy and operating style do not promote effective control over financial reporting,
- ii) Manual or automated controls are not designed to ensure that the transactions have occurred, are authorized and are completely and accurately processed and
- iii) On-going monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Strategies to clean up the audit report

Progress to date

Currently the finance department is up to date regarding capturing i.e. up to January. Most of the reconciliations have also been done. The only worrying issue however is that even though the bank reconciliation has been conducted manually, serious work still needs to be done on the system's bank reconciliation.

Short term plans

Phase 1- Mid year financial statements

This entails a fully credible mid-year financial statements prepared and submitted to the Internal Auditors and Audit Committee before the 31st March 2010. These financial statements shall serve to address all envisaged adjustments to the financial statements emanating from the Audit Report. They shall also be accompanied by detailed and accurate supporting schedules and work papers.

Phase 2- Monthly financial statements

Up to the 30th April 2010 the backlog from January to March 2010 will have been covered and all monthly statements issued. The April and May financial statements will be issued within 10 days after the end of each month. These monthly financial statements will be fully compliant, accurate and complete with necessary supporting documentation.

Phase 3- Preparation and review of Annual Financial Statements

Within this new approach management envisages to have completed preparation of Annual Financial Statements by the 31st of July 2010 and submit to the Internal Auditors and the Audit Committee for review.

Mid term plans

In the mid-term the Municipality is planning on putting mechanisms to enhance the capacity of the entire financial department's staff contingent.

Strategies to improve the cash flow position

FINANCIAL MANAGEMENT TURN AROUND STRATEGY

MFOLOZI MUNICIPALITY

Progress to date

This significant turnaround has been as a result of some significant and painful sacrifices by both the management and council in a bid to improve the cash flow position of the Municipality. Among some cost cutting measures the following are worth noting,

- 30% reduction in the telephone costs,
- Between 25% to 40% reduction in catering and refreshment costs,
- 15 to 20% reduction in fuel and other travelling related expenses,
- 10% reduction in travel claims for staff and councilors,
- Between 50 to 60% reduction in cleaning costs due to a cancellation of the cleaning contract,
- 30% reduction in security costs by limiting the security contract to guarding of specific municipal properties rather than the previous generic public safety and
- Reduction of creditors outstanding amount from R 13 million in June to R 4.3 million in January.

Short term strategies

- Cutting of expenditure budget by at least 20%,
- Stringent budgetary control measures,

Mid term strategies

- Conclusion of one sale of land that will inject R 3,4 million into the Municipality,
- Collection of government debt

Long term strategies

- Finalization of one sale of land that would yield R 10 million to the Municipality,
- Intensifying the development initiatives aimed at enhancing the revenue base of the municipality

Monitoring and Evaluation Mechanisms

The TAS will be established to monitor the short-term implementation of the strategy, up to the end of August. From there going forward the normal reporting structures will be responsible.

With regards to the monitoring of the audit process, as from the beginning of September MANCO will convene on a weekly basis audit meetings to track progress and address concerns. Over and above this a monthly Audit Steering Committee is recommended to address issues in time.

**FINANCIAL MANAGEMENT TURN AROUND STRATEGY
MFOLOZI MUNICIPALITY**

ANNEXURE A

MATTERS THAT IMPACTED ON THE AUDIT REPORT

| Ref # | Finding | Action plan | Implementation Date | Accountable Executive | Status |
|-------|--|---|---------------------|-----------------------|--|
| 5 | Trade and other receivables from exchange transactions This included an amount of R 934044 outstanding for more than 365 days. | Implementation of the accounting policy (i.e. provision for doubtful debts made for amounts owing more than 60 days) | 31 December 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 6 | Other receivables from non-exchange transactions No evidence to support the balance of R 756.653 | Supporting documentation will be gathered and provided where it can not be provided, the amounts will be written off, after getting the council resolution. | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 7 | Value Added Tax receivables An adjustment of R 1,578,155 and no supporting documentation was provided to the auditors for this adjustment. | A proper report will be done clearly outlining the impact of VAT on the un-appropriated surplus and Property Plant and Equipment. The adjustment will duly made on the PPE and the remainder taken off the un-appropriated surplus. | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 8 | Unspent Conditional Grants No supporting documentation was provided in respect of an amount of R 6,632,195 for unspent conditional grants. | A file will be opened for each grant and the following will be filed; i. The origin and conditions of the grant (i.e. MOA or extracts of DORA) ii. Proof of receipt, iii. Copies of payment vouchers and | 30 April 2010 | CFO | To commence at the beginning of March |

FINANCIAL MANAGEMENT TURN AROUND STRATEGY MFOLOZI MUNICIPALITY

| Ref # | Finding | Action plan | Implementation Date | Accountable Executive | Status |
|-------|--|--|---------------------|-----------------------|--|
| | | iv. Schedule transactions and outlining the year-end balance of the grant | | | |
| 9 | Property Plant and Equipment There were some discrepancies between the amounts on the Balance Sheet and the notes thereto | These discrepancies will be corrected during the mid-year financial statements | 30 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 10 | Property Plant and Equipment Assets on the Fixed Assets Register could not be verified | Proper verification of assets will be conducted by the 28 th February 2009 | 28 February 2010 | CFO | |
| 11 | Investment Property No investment property register was provided to support the amount of R 1,590,000 | Investment Property Register will be developed and submitted together with the mid-year financial statements | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 12 | Trade and other payables from exchange transactions There was no supporting documentation for the amounts of R 8,389,584 and R 1,946,582 | All supporting documentation will be provided and the suspense accounts cleared | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| | Adjustments totaling R 4,358,091 was not supported by any documentation | Supporting documentation will be provided and attached on the work paper file | 30 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |

FINANCIAL MANAGEMENT TURN AROUND STRATEGY MFOLOZI MUNICIPALITY

| Ref # | Finding | Action plan | Implementation Date | Accountable Executive | Status |
|-------|--|---|---------------------|-----------------------|--|
| | There is no formal creditors system in place | Creditors module of the system will be implemented from 01 April 2010 | 30 April 2010 | CFO | |
| 19 | Provision for leave bonus Provision for leave bonus is overstated by R 511,721 on the financial statements | Proper provision will be made on the mid-year financial statements | 30 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 20 | Bank overdraft No proper bank reconciliation was provided to auditors | Bank reconciliation will be conducted for the 6 months from July to December 2010 when the mid-year financial statements are prepared | 30 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 21 | The overdraft amount was disclosed as 'cash at bank'. | This will be corrected in both the mid-year financial statements and the annual financial statements | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 22 | Accumulated Deficit Accumulated deficit did not take into account the changes in accounting policy | Proper adjustment will be made when the mid-year financial statements are prepared | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 23 | Backlog depreciation as per the financial statements does not agree to the amount | Proper adjustment will be made when the mid-year financial statements are | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |

FINANCIAL MANAGEMENT TURN AROUND STRATEGY MFOLOZI MUNICIPALITY

| Ref # | Finding | Action plan | Implementation Date | Accountable Executive | Status |
|-------|--|---|---------------------|-----------------------|--|
| | as per the FAR | prepared | | | financial statements |
| 24 | Government grants and subsidies Revenue from grants was overstated by an amount of R 1,338,717 | Proper adjustment will be made during the mid-year financial statements | 31 March 2010 | CFO | Currently in the process drafting the mid-y financial statements |
| 25 | Employee related costs The employee related costs did not correspond to the note thereto and were found to have been overstated by R 415,508 | The prior-year figure of the accumulated surplus will be adjusted accordingly and the six months to December salaries will be adequately reconciled during the preparation of the mid-year financial statements | 31 March 2010 | CFO | Currently in the process drafting the mid-y financial statements |
| 26 | Repairs and Maintenance The comparatives for Repairs and Maintenance were not adequately disclosed on the financial statements | Going forward the mid-year and the monthly financial statements will ensure that this is avoided through continuous review of financial statements | 31 March 2010 | CFO | |
| 27 | Contracted services No breakdown was provided for the figure of contracted services | The breakdown will be prepared, provided to the audit committee and it will be adequately disclosed on the mid-year financial statements | 31 March 2010 | CFO | |

FINANCIAL MANAGEMENT TURN AROUND STRATEGY MFOLOZI MUNICIPALITY

| Ref # | Finding | Action plan | Implementation Date | Accountable Executive | Status |
|-------|---|---|---------------------|-----------------------|--------|
| 28 | General expenses No supporting documentation was provided to support journals passed | This supporting documentation will be collected and submitted to auditors as proof to follow-ups to prior year issues | 30 April 2010 | CFO | |
| 29 | Comparative figures for general expenses did not correspond to prior years | Management will avoid this happening by a continuous review of financial statements from the mid-year and monthly financial statements | 31 March 2010 | CFO | |
| 30 | A material amount of R 5,926,967 is not adequately disclosed separately | This will be corrected accordingly and the comparative figures adequately reviewed | 31 March 2010 | CFO | |
| 31 | Expenses Expenses to the value of R 1,882,688 relating to prior year (i.e. 2007/08) and R 346,867 relating the following financial year (2009/10) were accounted for during the reporting financial year. | Management will investigate whether the expenses were actually accounted for during 2007/08 and adjust the accumulated deficit will be adjusted accordingly | 31 March 2010 | CFO | |
| 32 | Unauthorized, irregular and fruitless expenditure An amount of R 12,542,467 was not adequately accounted for on the annual financial statements and the nature and | The amount will be adequately explained on the financial statements and properly accounted for | 31 March 2010 | CFO | |

FINANCIAL MANAGEMENT TURN AROUND STRATEGY MFOLOZI MUNICIPALITY

| Ref # | Finding | Action plan | Implementation Date | Accountable Executive | Status |
|-------|--|---|---------------------|-----------------------|--|
| | description thereto was not adequately disclosed. | A report of all unauthorized, fruitless and/or irregular expenditure will be submitted to council for consideration | 31 March 2010 | MM | |
| 33 | Going concern The going concern assumption of the Municipality was not adequately disclosed in the | A section on the going concern position of the Municipality is exhaustively outlined above and recommendations for a turn around have been made | | MM | |
| 34 | Cash Flow Statement Details of receipts and payments from operating activities for the current year were not disclosed | This detail will be adequately provided on the comparatives when the mid-year AFS are prepared | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 35 | Cash flow from investing activities does not agree to Note 4 on PPE | This will be corrected during the preparation of the Mid-year financial statements | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 36 | The comparative for net cash and cash equivalent does not agree to the respective Note thereto | This will be corrected during the preparation of the Mid-year financial statements | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |
| 37 | The cash equivalents note showed a bank balance instead of an overdraft | This will be corrected during the preparation of the Mid-year financial statements | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |

FINANCIAL MANAGEMENT TURN AROUND STRATEGY MFOLOZI MUNICIPALITY

| Ref # | Finding | Action plan | Implementation Date | Accountable Executive | Status |
|-------|---|--|---------------------|-----------------------|--|
| 39 | Commitments to the value of R 346,867 were not disclosed on the notes | This will be corrected during the preparation of the Mid-year financial statements | 31 March 2010 | CFO | Currently in the process of drafting the mid-year financial statements |

FINANCIAL MANAGEMENT TURN AROUND STRATEGY MFOLOZI MUNICIPALITY

ANNEXURE B

Compliance Issues raised by the Auditor General

| Ref # | Finding | Action plan | Implementation Date | Accountable Executive | Status |
|-------|--|---|---------------------|-----------------------|--------|
| 44 | <i>Non compliance to section 125 (2)(e)</i> Non compliance to MFMA was not disclosed as required by section 125(2)(e) of MFMA | Management will develop a risk based compliance roster outlining mainly those areas that have been identified by both internal and external audits | 30 April 2010 | MM | |
| 45 | <i>Non compliance to section 29 of the MFMA</i> This was in terms of items not budgeted for and items exceeding budgetary limits | For prior year a full report of unbudgeted items will be submitted to council for consideration | 30 April 2010 | CFO | |
| 46 | <i>Non compliance to section 31 of the MFMA</i> There was no evidence for compliance to section 31 | Council resolution will be attached on the work paper file as proof. | 30 April 2010 | CFO | |
| 47 | <i>Non compliance to section 32 of the MFMA</i> There was no evidence for compliance to section 32 and no proof of adequate reporting | For prior year a full report of unbudgeted items will be submitted to council for consideration and a report will be submitted to the MEC and Auditor General | 30 April 2010 | CFO | |

FINANCIAL MANAGEMENT TURN AROUND STRATEGY MFOLOZI MUNICIPALITY

| Ref # | Finding | Action plan | Implementation Date | Accountable Executive | Status |
|-------|--|---|---------------------|-----------------------|--------|
| 48 | <i>Non compliance to section 65(2)(e) of the MFMA</i> Creditors and contractors were not paid timeously. | | | MM | |
| 49 | <i>Non compliance to section 24 and 27 of the MFMA</i> There was no documentary proof that the budget was submitted to National and Provincial Treasury after approval by council | Management will solicit acknowledgement letters from the Treasury for the 2009/10 budget submission | 28 February 2010 | CFO | |
| 50 | <i>Non compliance to section 28(5) of the MFMA</i> Budget was not accompanied by explanations as required by the act | Management will develop a risk based compliance roaster outlining mainly those areas that have been identified by both internal and external audits | 30 April 2010 | MM | |

**REPORT OF THE AUDITOR-
GENERAL ON THE FINANCIAL
STATEMENTS AND PERFORMANCE
INFORMATION OF MFOLOZI
(MBONAMBI)
MUNICIPALITY**



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Mbonambi Municipality
P.O. Box 96
Mbonambi
3915

30 November 2009

Reference: 21270REG0809

Dear Mr Nkosi

**Report of the Auditor-General on the financial statements and performance
information of Mbonambi Municipality for the year ended 30 June 2009**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)
2. The audit report is issued as a final draft pending our receipt of all other documents that will be included in the annual report that will contain the audited financial statements is received.
3. Once these documents are received we will read them to establish if there are any inconsistencies with the audited financial statements. You will then be requested to amend this other information or the financial statements in respect of any inconsistencies. Once this process has been satisfactorily completed we will issue the final signed audit report.
4. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
5. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.



AUDITOR - GENERAL
SOUTH AFRICA

6. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* (which will be issued when the requirements of paragraph 3 above have been met) in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
7. Please notify the undersigned person well in advance of the date on which the annual report containing this audit report, will be tabled.
8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Barry van der Merwe

Senior Manager; KZN 7

Enquiries: Barry van der Merwe
Telephone: (033) 264 7615
Fax: (033) 266 5585

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL
PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL
STATEMENTS AND PERFORMANCE INFORMATION OF MBONAMBI
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Mbonambi municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
4. Paragraph 11 *et seq.* of the Standards of GRAP, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Mbonambi municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

Basis for disclaimer of opinion

Trade and other receivables from exchange transactions

5. Trade and other receivables from exchange transactions includes an amount of R934 044 outstanding for more than 365 days as reflected in note 2 to the financial statements. There was no interest raised on these debtors, nor was there any evidence of the consideration of any fair value adjustment for such long-outstanding amounts. This is contrary to the requirements of International Accounting Standard 39 - Financial instruments recognition and measurement. The records of the municipality did not permit the application of alternative audit procedures and the error could not be determined. Consequently, there is doubt about the reasonableness of the carrying value of this component of accounts receivable in the statement of financial position.

Other receivables from non-exchange transactions

6. No evidence was provided to support the balance of R756 653 reflected as 'other receivables from non-exchange transactions' on the statement of financial position and as reflected in Note 3 to the financial statements. The records of the municipality did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the existence, completeness, rights and valuation of this balance.

VALUE ADDED TAX Receivable

7. An adjustment has been made in respect of the current year input VAT to the value of R1 578 155, however, no supporting documentation in respect of the breakdown of expenses affected by this adjustment have been provided. Furthermore, the transfer of the VAT receivable debit of R1 988 746 from trade and other payables from exchange transactions was not effected. Consequently, I was unable to obtain adequate information and explanations to satisfy myself as to the existence, completeness, and valuation of the VAT receivable balance of R1 578 155.

Unspent Conditional Grants

8. Included under current assets on the statement of financial position is an amount of R6 632 195 in respect of 'Unspent Conditional Grants'. There was no evidence provided in support of this amount, or the movement of R17 892 320, from a liability of R11 260 125 at the end of June 2008 to the amount reflected as being receivable. Consequently, I was unable to satisfy myself as to the existence, completeness, rights and valuation of the amount reflected as 'Unspent Conditional Grants' as reflected in Note 12 to the financial statements. Furthermore, Note 12 to the financial statements in respect of Unspent Conditional Grants is incomplete as it does not detail the composition of the balance of R6 632 195.

Property, plant and equipment

9. Prior year comparatives for property, plant and equipment were not restated on the financial statements.

10. The opening carrying value as at 1 July 2008 of R20 908 452 as per the note 4 of the financial statements does not agree to the closing carrying value of R25 716 650 as at 30 June 2008 as per note 4.
11. The amount as per the statement of financial position reflects an amount of R18 364 768 which could not be agreed to note 4 in respect of Property, plant and equipment which reflects a carrying value of R19 493 444, resulting in a difference of R1 128 676.
12. Note 4 to the financial statements in respect of Property, plant and equipment indicates an opening cost of R25 581 281. This does not agree to the cost per the prior year audited financial statements of R26 181 164 resulting in a difference of R599 883.
13. Due to the matters described in paragraph 8 to paragraph 11 above, Property, Plant and Equipment is not correctly presented and disclosed in the financial statements.
14. During the physical verification of assets, items from the fixed asset register could not be located. Furthermore, repairs and maintenance expenses were incurred in respect of vehicles not included on the fixed asset register. It was later established that these vehicles were actually assets of the municipality. As Property, plant and equipment of R18 364 768 reflected in the statement of financial position is based on the amounts per the fixed asset register, I could not satisfy myself on the completeness and existence of assets disclosed per the financial statements.

Investment property

15. No investment property register was provided to support the amount of R1 590 000 recognised as Investment property in the statement of financial position and note 5 to the financial statements. The records of the municipality did not permit the application of alternative audit procedures. In the absence of any documentation that would indicate the composition of the above amount, I was unable to satisfy myself as to the existence, completeness, and rights and valuation of this balance.

Trade and other payables from exchange transactions

16. Included in Trade and other payables from exchange transactions were suspense accounts totaling R8 389 584 and a debit balance to the value of R1 946 582 for which there was no supporting evidence provided to enable verification of the appropriateness of the accounting treatment thereof.
17. Adjustments totaling R4 358 091, increasing Trade and other payables from exchange transactions, were not supported by any documents to enable a verification of their nature and appropriateness.
18. There is no formal system in place for creditors with the result that invoices are processed only when payment is made and an invoice register is not maintained to ensure completeness of creditors. As a result of the above, I was unable to satisfy myself as to the existence, completeness, obligations and valuation regarding

Trade and other payables from exchange transactions as reflected in Note 6 to the financial statements.

Provision for leave and bonus

19. Provision for leave and bonus is reflected as R1 167 826 in the statement of financial position and note 11 thereto. Based on calculations and journals provided, this provision is R656 104. Consequently, Provision for leave and bonus is overstated by an amount of R511 721, with the overall deficit being overstated by the same amount.

Bank overdraft

20. The bank overdraft per the statement of financial position is reflected at R13 994 017. The total value of the bank accounts per the bank confirmation, however, reflects a total of R155 871 in favour of the municipality. No reconciliation was made available to enable a clearance of the resultant difference of R14 149 888 and to ascertain the effect thereof on any other account balances in the financial statements. The records of the municipality did not permit the application of alternative audit procedures. Consequently I was unable to satisfy myself as to the existence, completeness, obligations and valuation of the bank overdraft balance of R13 994 017.
21. The overdraft balance of R13 994 017 is disclosed as "cash at bank" in the note 1 to the financial statements and therefore does not specify that this is a bank overdraft.

Accumulated deficit

22. The accumulated deficit of R13 124 157 reflected in the statement of financial position and statement of changes in net assets does not take into account the financial effects of the changes in accounting policies relating to the implementation of Standards of GRAP. Note 28.4 to the financial statements reflects an amount of R 29 615 951 resulting from the implementation of Standards of GRAP. The Accumulated deficit is accordingly misstated.
23. Note 28.4 to the financial statements reflects an amount of R6 564 733 in respect of backlog depreciation. The backlog depreciation does not agree to the backlog depreciation per the fixed asset register which reflects an amount of R4 868 492, resulting in a difference of R1 696 241.

Government grants and subsidies

24. Revenue from government grants and subsidies includes an amount of R6 759 000 relating to conditional grants received as reflected in note 17 to the financial statements. In terms of the evidence provided, only R5 420 283 should have been recognized as income, whilst the full receipts for the year have been recognized. Accordingly, Revenue from government grants and subsidies is overstated by R1 338 717, resulting in the deficit for the year and unspent conditional grants liability is also understated by a similar amount.

Employee related costs

25. Discrepancies were identified in note 19 to the financial statements supporting the employee related costs balance of R11 450 417 reflected in the statement of financial performance:
- Allowances and benefits amounting to R408 810 in respect of key personnel were omitted from the note in contravention of section 124(1)(c) of the MFMA
 - The employee related costs of R11 450 417 reflected on the statement of financial performance does not agree to the R8 941 937 disclosed in note 19 to the financial statements
 - Further, note 30.2 is reflecting an incorrect amount of R2 868 868 as opposed to R2 453 360 per the payroll system and is hence overstated by R415 508

Repairs and maintenance

26. The comparative figure for repairs and maintenance reflected at RNil in the statement of financial performance does not agree to the prior year signed financial statements of R730 232. It was not possible to apply alternative procedures to obtain the necessary assurance on the nature and appropriateness of these disclosures.

Contracted Services

27. Note 23 to the financial statements in respect of contracted services of R3 482 436 is not supported with a breakdown of the contracted services. It was not possible to apply alternative procedures to obtain the necessary assurance on the nature and appropriateness of these disclosures.

General Expenses

28. No supporting documentation was provided to support journals processed to general expenditure to the value of R3 677 185. It was not possible to apply alternative procedures to obtain the necessary assurance on the nature and appropriateness of these journals.
29. The comparative figure for general expenses reflected at R32 390 921 in the statement of financial performance does not agree to the amount in the prior year audited financial statements Appendix D of R10 650 873. No supporting documents were provided detailing the composition of the R32 390 921 of general expenses for the prior year.
30. Note 24 to the financial statements supporting the current year figure for general expenses of R10 892 732 includes an amount of R5 926 967 described as "Other" and therefore a significant amount of general expenses has not been categorised.

Expenses

31. Expenses to the value of R1 882 688 relating to the prior financial year and expenses to the value of R346 867 relating to the next financial year were incorrectly accounted for in the current year. The impact of this is that expenses is overstated by R2 229 555, whilst accumulated deficit at the end of the year is overstated by R2 229 555 and the accumulated deficit at the beginning of the year is understated by R1 882 688.

Unauthorised, irregular and fruitless and wasteful expenditure

32. Note 30 to the financial statements reflects an amount of R12 542 467 in respect of unauthorised expenditure. The effects of the adjustments to the financial statements have not been taken into account in this amount. Furthermore, Notes 30 and 30.1 to the financial statements in respect of unauthorised and fruitless and wasteful expenditure, does not fully describe the nature of the amounts disclosed as required in terms of Section 125 (2)(d) of the MFMA

Going concern

33. The municipality has not been in a position to settle its debts on a timely basis due to significant cash flow constraints. In addition, the liabilities of the Municipality as reflected on the statement of financial position significantly exceed the current assets. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Municipality's ability to continue as a going concern. This has not been disclosed in the financial statements.

Cash flow Statement

34. Detail of receipts and payments from operating activities for the current year are not disclosed in the cash flow statement. The total for net cash flows from operating activities is disclosed on the cash flow statement at R12 949 332. This does not agree to Note 26 to the financial statements of R9 689 888.
35. Cash flows from investing activities reflects R20 066 009 in respect of purchase of fixed assets. This does not agree to acquisitions of fixed assets per Note 4 to the financial statements which reflect acquisitions to the value of R294 491.
36. The comparative for net cash and cash equivalents at the end of the period is disclosed as R4 872 937 on the cash flow statement. This does not agree to Note 27 reflecting an amount of R5 639 637.
37. Note 27 to the financial statements in respect of cash and cash equivalents describes the amounts of R13 994 017 and R5 639 637 as 'bank balances and cash' as opposed to bank overdrafts.
38. Therefore, I was unable to confirm the accuracy of the cash flow statement.

Commitments

39. Commitments to the value of R346 867 are not disclosed in the notes to the financial statements, therefore impacting on the fair presentation and disclosure in terms of commitments.

Disclaimer of opinion

40. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matters

I draw attention to the following matters on which I do not express a disclaimer of opinion:

Restatement of corresponding figures

41. As disclosed in note 29 to the financial statements, the corresponding figures for other income for 30 June 2008 have been restated by R241 111 as a result of an error discovered during 30 June 2008/2009 in the financial statements of the Mbonambi Municipality at, and for the year ended, 30 June 2008.

Other matters

I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

Material inconsistencies in information included in the Annual report

42. I have not obtained the other information included in the Annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

43. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I do not express an opinion thereon.

Non-compliance with applicable legislation

Local Government: Municipal Finance Management Act (No.56 of 2003)

44. Instances of non-compliance with the MFMA, as described below were not disclosed in the notes to the annual financial statements as required by section 125 (2) (e) of the MFMA;
45. Requirements of section 29 of the MFMA were not complied with in terms of expenditure incurred for items not budgeted for, and expenditure incurred in excess of budgeted amounts, resulting in unauthorised expenditure;
46. There was no evidence of compliance with section 31 of the MFMA in respect of the overspending of R107 825 for capital expenditure budgeted for;
47. There was no evidence of compliance with requirements of section 32 of the MFMA in respect of unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality. There was also no evidence that the Mayor, MEC for local government in the province and the Auditor-General was

informed of unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality in accordance with section 32(4) of the MFMA;

48. The municipality had not paid creditors and contractors timeously resulting in non-compliance with section 65(2)(e) of the MFMA;
49. There was no documentary evidence provided to indicate that the budget after being approved by council was submitted to National and Provincial Treasury per section 24 and section 27 of the MFMA;
50. The adjustments budget was not accompanied by explanations in terms of section 28(5) of the MFMA.

GNR 868 Municipal Supply Chain Management Regulations

51. The municipality did not comply with Supply Chain Management Regulations 12, 16 and 17 in terms of obtaining the required number of quotations for procurement of goods. There was also no evidence of compliance with regulation 43, which requires the municipality to ensure that for awards above R15 000, the supplier's tax matters are in order. It was also noted that the list of accredited prospective providers was not updated quarterly by the municipality and that no invitations were made via newspapers to invite prospective providers to apply for listing as required by Regulation 14 of the Supply Chain Management Regulations.
52. Tenders were awarded to contractors who did not meet the requirements for the tender, and the awards were contrary to the recommendations of the Bid Evaluation Committee, resulting in non-compliance with Par 29(5)(a) and (b) of the Supply Chain Management regulations.

Income Tax Act No. 58 of 1962

53. There was no evidence of payments to South African Revenue Services (SARS) in respect of Pay As You Earn / Unemployment Insurance Fund and Skills Development Levy during the year. Total outstanding payments for the year amounted to R2 453 360. Furthermore, PAYE in respect of the housing fringe benefit for employees was not calculated and paid over to SARS.

Pension Fund Act No. 24 of 1956

54. The municipality did not pay the employer and member contributions in respect of the Natal Joint Municipal Pension Fund within the required time period. In terms of S13 A of the Pension Fund Act the municipality is obligated to make these payments and non-payment has resulted in additional penalties and interest.

Budgetary Preparation and Control

55. In addition to non-compliance issues in respect of the budgeting process as documented in Par 8, 9 12, 13, 15 and 16 above, the adjustment budget was adjusted downwards in respect of assessment rates from R2 429 073 to R10 360, however the actual amount received was R2 471 797.57. It was noted

that suspense accounts ('Creditors Budget Overspent and Salary suspense Control') were also included in the budget.

Governance framework

56. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

57. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

| Par. no. | Basis for disclaimer of opinion | CE | RA | CA | IC | M |
|----------|---|-----|----|----|----|-----|
| 5. | Trade and other Receivables from exchange transactions | | | | | 1 |
| 6. | Other Receivables from non-exchange transactions | 5-6 | | | | 1 |
| 7. | VALUE ADDED TAX receivable | 5-6 | | | | 1 |
| 8. | Unspent Conditional Grants | 5-6 | | | | 1 |
| 9-14. | Property, Plant and Equipment | 5-6 | | | | 1 |
| 15. | Investment Property carried at cost | 5-6 | | | | 1 |
| 16-18. | Trade and other payables from exchange transactions | 5-6 | | 3 | | 3 |
| 19. | Provisions for leave and bonus | 5-6 | | | | 1 |
| 20-21. | Bank overdraft | 5-6 | | | | 1-3 |
| 22-23. | Accumulated Deficit | 5-6 | | 3 | | 1 |
| 24. | Government grants and subsidies | 5-6 | | 3 | | 1 |
| 25. | Employee related costs | 5-6 | | | | 1 |
| 26. | Repairs and maintenance | 5-6 | | | | 1 |
| 27. | Contracted services | 5-6 | | | | 1 |
| 28-30. | General Expenditure | 5-6 | | | | 1 |
| 31. | Expenses | 5-6 | | 3 | | 1 |
| 32. | Unauthorised, irregular, fruitless and wasteful expenditure | 5-6 | | | | 1 |
| 33. | Going concern | 5-6 | | | 1 | |
| 34-38 | Cash Flow Statement | 5-6 | | | | 1 |
| 39. | Commitments | 5-6 | | | | 1 |

58. Based on the above significant weaknesses have been identified in the overall internal control environment and governance framework of the municipality which needs to be addressed.

| Legend | |
|---|---|
| CE = Control environment | |
| The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting. | 1 |
| Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting. | 2 |
| Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel. | 3 |
| Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting. | 4 |
| The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control. | 5 |
| Management's philosophy and operating style do not promote effective control over financial reporting. | 6 |
| The entity does not have individuals competent in financial reporting and related matters. | 7 |
| RA = Risk assessment | |
| Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting. | 1 |
| The entity does not identify risks to the achievement of financial reporting objectives. | 2 |
| The entity does not analyse the likelihood and impact of the risks identified. | 3 |
| The entity does not determine a risk strategy/action plan to manage identified risks. | 4 |
| The potential for material misstatement due to fraud is not considered. | 5 |
| CA = Control activities | |
| There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation. | 1 |
| General information technology controls have not been designed to maintain the integrity of the information system and the security of the data. | 2 |
| Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed. | 3 |
| Actions are not taken to address risks to the achievement of financial reporting objectives. | 4 |
| Control activities are not selected and developed to mitigate risks over financial reporting. | 5 |
| Policies and procedures related to financial reporting are not established and communicated. | 6 |
| Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system. | 7 |
| IC = Information and communication | |
| Pertinent information is not identified and captured in a form and time frame to support financial reporting. | 1 |
| Information required to implement internal control is not available to personnel to enable internal control responsibilities. | 2 |
| Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel. | 3 |
| M = Monitoring | |
| Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting. | 1 |
| Neither reviews by internal audit or the audit committee nor self -assessments are evident. | 2 |
| Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken. | 3 |

Key governance responsibilities

59. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to

achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

| No. | Matter | Y | N |
|---|--|--------------------------|--------------------------|
| Clear trail of supporting documentation that is easily available and provided in a timely manner | | | |
| 1. | No significant difficulties were experienced during the audit concerning delays or the availability of requested information. | | <input type="checkbox"/> |
| Quality of financial statements and related management information | | | |
| 2. | The financial statements were not subject to any material amendments resulting from the audit. | | <input type="checkbox"/> |
| 3. | The annual report was submitted for consideration prior to the tabling of the auditor's report. | | <input type="checkbox"/> |
| Timeliness of financial statements and management information | | | |
| 4. | The annual financial statements were submitted for auditing as per the legislated deadlines [section 126 of the MFMA]. | <input type="checkbox"/> | |
| Availability of key officials during audit | | | |
| 5. | Key officials were available throughout the audit process. | <input type="checkbox"/> | |
| Development and compliance with risk management, effective internal control and governance practices | | | |
| 6. | Audit committee | | |
| | • The municipality had an audit committee in operation throughout the financial year. | <input type="checkbox"/> | |
| | • The audit committee operates in accordance with approved, written terms of reference. | <input type="checkbox"/> | |
| | • The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. | <input type="checkbox"/> | |
| 7. | Internal audit | <input type="checkbox"/> | |
| | • The municipality had an internal audit function in operation throughout the financial year. | <input type="checkbox"/> | |
| | • The internal audit function operates in terms of an approved internal audit plan. | <input type="checkbox"/> | |
| | • The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. | <input type="checkbox"/> | |
| 8. | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management. | | <input type="checkbox"/> |
| 9. | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations. | | <input type="checkbox"/> |
| 10. | The information systems were appropriate to facilitate the preparation of the financial statements. | | <input type="checkbox"/> |
| 11. | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA. | | <input type="checkbox"/> |
| 12. | Delegations of responsibility are in place, as set out in section 79/106 of the MFMA. | <input type="checkbox"/> | |